

GATEWAY MIDDLE/HIGH SCHOOL

REPORT FOR

JUNE 30, 2004

GATEWAY MIDDLE/HIGH SCHOOL

TABLE OF CONTENTS

	PAGE
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - ix
INDEPENDENT AUDITORS' REPORT	1
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	3
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	5
Statement of Activities.	6
Balance Sheet – Governmental Funds	7
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	9
Reconciliation of the Statement of Revenue Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Notes to Financial Statements.....	11
REQUIRED SUPPLEMENTAL INFORMATION	
General Fund	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	22
OTHER SUPPLEMENTAL INFORMATION	
General Fund	
Comparative Balance Sheet.....	24
Comparative Statement of Revenues.....	25
Statement of Operating Expenditures	26

Gateway Middle/High School

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2004

This section of *Gateway Middle/High School's* annual financial report presents our discussion and analysis of *Gateway's* financial performance during the fiscal year ended June 30, 2004. This Discussion and Analysis is a requirement of GASB No. 34 and intended to be read in conjunction with *Gateway's* financial statements, which immediately follow this section. Because this is *Gateway's* first year of implementation under GASB No. 34, we will not include a comparative analysis until FY 2005, at which time a comparative analysis between this FY 2004 information and the FY 2005 information will be possible.

I. Historical Background and Mission of Gateway Middle/High School.

Gateway Middle/High School is a public school academy, organized and operating under Section 6A of Michigan's Revised School Code, Act 451, P.A. 1976, as amended, and located at 311 State Street, SE, in downtown Grand Rapids, Michigan. The mission of *Gateway Middle/High School* is to equip all of its students with the necessary skills and experiences which will empower them to be positive and productive citizens of a global community in the twenty-first century, while fostering an understanding of, and an appreciation for, contributions of all people to our world. *Gateway* was created by a group of parents and educators dedicated to the education of children in the Grand Rapids community. *Gateway* was chartered by Grand Valley State University (GVSU) in February of 1997 and, at its inception, served students in grades 7-9. Consistent with its original plan, *Gateway* added one grade level during each year in operation and began serving students in grades 7-12 in the 2000-2001 academic year. *Gateway's* original five-year charter was reviewed during the 2001-2002 academic year and renewed by GVSU under the terms of a seven-year charter contract. *Gateway* received accreditation through the North Central Association Commission on Accreditation and School Improvement (NCA-CASI) during the 2001-2002 academic year and this accreditation has been renewed annually and continually through the 2003-2004 academic year.

One of *Gateway's* goals is to provide an additional public school choice for students in the greater Grand Rapids area, particularly for students living in and around downtown Grand Rapids who may not have access to an educational environment other than a large and traditional urban public school.

Gateway is an urban school serving a diverse student body, reflective of the diversity of the city of Grand Rapids. With its downtown location, *Gateway* offers students and staff an opportunity to experience the cultural diversity and community resources the City of Grand Rapids provides. The curriculum and the placement of the school in an urban setting are designed to foster an understanding of, and appreciation for, the contributions of all people to our

community and to foster relationships among students from various backgrounds.

Students at *Gateway* are encouraged to become responsible, self-directed learners and to develop individual learning plans to accommodate their unique learning styles. This facilitates individual pacing that is vital to each student reaching his or her maximum potential. In addition to pursuing a rigorous, guided, individually paced, academic curriculum, *Gateway's* students are introduced to the world of work, through community service, field trips and internships, and develop practical skills necessary to find their place in the modern workplace. They also learn by example and experience to be contributing members of their various communities, including school, neighborhood and beyond. Emphasis is placed on cooperative learning and current technology as being necessary preparation for real-world placements.

The school uses the myriad community resources available in downtown Grand Rapids rather than relying entirely on in-school facilities. During the 2003-2004 fiscal year, *Gateway's* Physical Education classes, MHSAA High School Athletic Program, and Intramural Sports Program used the gymnasium at the Downtown Branch of the YMCA. *Gateway* also developed and introduced an after-school program to its high school students during the 2003-2004 fiscal year in collaboration with The Vine, an outreach of First United Methodist Church located at 227 East Fulton Street in downtown Grand Rapids. *Gateway* also has availed itself of the many offerings in and around downtown Grand Rapids that include, but are not limited to, the Grand Rapids Public Museum, the Grand Rapids Public Library, the Grand Rapids Art Museum, the Gerald R. Ford Museum, the Civic Theatre, Wealthy Street Theatre, the St. Cecilia Society, DeVos Hall, the Van Andel Arena and more. In this way the school provides a much richer experience for the students and involves them in the community, while supporting existing resources which are available near the school and avoiding the cost of duplicating such facilities and resources.

II. Financial Highlights

- A. During the 2003-2004 fiscal year, the State of Michigan continued to allocate a reduced Basic Foundation Allowance to elementary and secondary public schools and public school academies.¹ Specifically, the State of Michigan reduced *Gateway's* Basic Foundation Allowance in the 2002-2003 fiscal year by 3.8% per student on March 1, 2003, with

¹ *Gateway's* operating revenues come, in large part, from the so-called basic foundation allowance ("BFA"); that is, the sum paid by the State of Michigan for each pupil counted as enrolled at *Gateway* at the time of the September and February Count Days. The State of Michigan pays varying BFAs to school districts across the State as a result of the historical connection between school financing and real property tax bases. Located, as it is, in inner-city Grand Rapids, *Gateway's* BFA is among the lowest in the State. *Gateway* received \$6867.58 per student in FY 2004, close to the minimum State allocation of \$6700, while the highest FY 2004 foundation allowances in the State (excluding the island school districts) were \$11,954 per student. *Gateway's* anticipated operating revenue for the 2003-2004 fiscal year was computed by multiplying *Gateway's* FY 2004 BFA times *Gateway's* FY 2004 blended enrollment figure. The FY 2004 "blended enrollment figure" was calculated by adding eighty (80%) percent of the September 2003 pupil count to twenty (20%) percent of the February 2003 count.

retroactive effect to the start of the 2002-2003 fiscal year, and continued that reduced allocation into the 2003-2004 fiscal year. In other words, *Gateway's* FY 2004 BFA was not significantly greater than its FY 2002 BFA, despite three years of continuing increases in the cost of living, inflation, the cost of employee benefit offerings and otherwise.

- B. In addition, *Gateway* enrolled 43 fewer students during the 2003-2004 fiscal year than had been projected and presumed when the 2003-2004 budget initially was adopted in June of 2003 (147 rather than 190). This shortfall is attributable to various factors that include, but may not be limited to: a requirement that preference be given to returning students and their siblings during the re-enrollment process which results, on occasion, in students "reserving" a place at *Gateway* which they then do not use, at the expense of an interested student who is wait-listed and later declines enrollment once the school year has begun; a more effective pre-enrollment process through which prospective students came to understand, prior to enrolling, that *Gateway* is not an alternative middle/high school and, indeed, that our graduation requirements exceed those of neighboring districts; a larger than anticipated number of middle school students opting to begin high school in a large, traditional public school; and an overly ambitious enrollment target.²
- C. Despite the combined challenge presented by a two-year reduction in per-pupil revenues (FY 2003 & FY 2004) and increased operating costs, and as a result of sound fiscal management, *Gateway's* financial position declined in fiscal year 2004 by only a portion of the potential deficiency of revenues over expenses. If the State of Michigan had not reduced *Gateway's* BFA and *Gateway* had enrolled the number of students projected at the time that the 2003-2004 budget was adopted in June of 2003, *Gateway* projects that it would have ended FY 2004 with at least \$26,576 revenues over expenses. However, as a result of a continuing reduction in *Gateway's* BFA and the enrollment of fewer students than anticipated, *Gateway* projected in November of 2003 that, absent austerity measures, it could experience a substantial deficiency of revenues under expenses. Through the implementation of austerity measures, *Gateway* reduced the unfavorable variance between revenues and other financing sources under expenditures to (\$74,878), a fraction of the potential deficit.
- D. *Gateway's* fund balance as of June 30, 2004 was \$138,878, a reduction of \$74,878 from the June 30, 2003 fund balance of \$213,756.
- E. *Gateway* revised its financial reporting this year to comply with GASB No. 34. This is a significant change in the methodology for reporting *Gateway's* financial position and activities.
- F. *Gateway* increased its direct instructional expenditures in FY 2004, while maintaining support services expenditures at a level comparable to the prior year.

² While enrollment projections are not an exact science and are influenced by many factors outside of *Gateway's* control, careful analysis of multi-year enrollment trends, prior to adoption of *Gateway's* 2004-2005 budget in June of 2004, appears to have resulted in enrollment levels for the 2004-2005 fiscal year that support FY 2005 budget presumptions.

G. General Fund Budgeting Highlights.

1. Actual revenues were \$21,303 below the final budget, due primarily to *Gateway's* reduced BFA and enrollment, and deferral of income not available for recognition at June 30, 2004. *Gateway* anticipates recognizing this deferral of income during FY 2005.
2. Actual expenditures were \$57,950 over the final budget, due primarily to unforeseen year-end accrual adjustments.
3. The decrease in actual revenue and the increase in actual expenditures decreased the general fund balance from the final budget amount of \$218,131 to \$138,878 at June 30, 2004. The year end fund balance is 10.2% of FY 2004 expenditures.

III. Overview of the Financial Statements

Gateway's annual financial report consists of six sections: (1) Management's Discussion and Analysis (this section); (2) the Independent Auditor's Report; (3) the Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards; (4) Basic Financial Statements; (5) Required Supplemental Information; and (6) Other Supplemental Information. Section Nos. 1 through 3 are self-explanatory. The following is an overview of the financial statements and supplemental information provided in Section Nos. 4 through 6.

Basic Financial Statements:

- A. The first two basic financial statements (Statement of Net Assets and Statement of Activities) are newly required **government-wide or district-wide statements** that provide both short-term and long-term information about *Gateway's* overall financial status on a **full accrual basis**.
- B. The remaining two financial statements (Balance Sheet – Governmental Funds; and Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds) are **fund financial statements** that focus on *Gateway's* one fund, a governmental or general operating fund, reporting on *Gateway's* operations in more detail than the district-wide statements, and reporting on a **modified accrual basis**.

IV. Government-Wide Statements

The government-wide financial statements (also sometimes referred to as district-wide financial statements) are new this year. There are two such government-wide statements included in this financial report – **the Statement of Net Assets and the Statement of Activities**. These statements are full accrual basis statements and report information about *Gateway* as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets and statement of activities include *all* of *Gateway's* assets and liabilities. All of the current year's revenues and expenses are accounted for in these statements of activities regardless of when cash is received or paid.

The two government-wide statements report *Gateway's* net assets and how they have changed. **Net assets** – the difference between *Gateway's* assets and liabilities – are one way to measure *Gateway's* financial health or position. Over time, increases or decreases in *Gateway's* net assets are one indicator of whether the school's financial position is improving or deteriorating, respectively. To assess *Gateway's* overall health, one must consider additional non-financial factors such as the stability of *Gateway's* student populations and faculty/staff, the condition of the school building and other facilities, the development and expansion of program offerings, and the like.

Most of *Gateway's* basic services are included in its government-wide financial statements, such as regular and special education, student support services, and administration. The Michigan Basic Foundation Allowance and/or dedicated federal, state or local grant funds finance most of these activities.

V. Fund Financial Statements

The fund financial statements provide more detailed information about *Gateway's* fund(s), focusing on *Gateway's* most significant or "major" fund(s), not upon the school as a whole. Fund(s) are accounting devices used to keep track of specific sources of funding and spending on particular programs. During FY 2004, *Gateway* had only one kind of fund, a **governmental fund**, which consisted of a general fund. . All of *Gateway's* basic services are included in its governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out; and (2) the balances left at year-end that are available for spending. Consequently, *Gateway's* governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance *Gateway's* programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information with the government funds statements that explains the relationships (or differences) between government-wide and fund financial statements.

Gateway may establish other funds to control and manage money for particular purposes (for example, a debt service fund, or a capital project fund) or to show that *Gateway* is properly using certain revenues (for example, an athletic fund, or a food service fund).

VI. Financial Analysis of Gateway as a Whole

Combined Net Assets – *Gateway's* combined net assets (*See* Table A-1) were smaller on June 30, 2004, than they were the year before, decreasing from \$281,362 at the end of FY 2003 to \$152,682 at the end of FY 2004. (*See* Table A-2) This decline in financial position is the product of many factors. Significant contributing factors included: the fact that *Gateway* receives close to the smallest level of BFA paid across the State; FY 2003 and FY 2004 presented two straight years of reduced BFA funding; FY 2004 presented reduced federal/state/local categorical grant

funding targeting specific programming; FY 2004 presented increases in the cost of living, inflation, the cost of employee benefit offerings; and other adverse economic factors.

Table A-1	
Gateway Middle/High School Net Assets	
	FY 2004
Current and other assets	\$ 250,657
Capital assets	5,949
Total Assets	\$ 256,606
Other liabilities	\$ 103,924
Total Liabilities	\$ 103,924
Net assets	
Invested in capital assets, net of related debt	\$ 5,339
Unrestricted	\$ 147,343
Total Net Assets	\$ 152,682

Table A-2	
Changes in Gateway Middle/High School's Net Assets	
	FY 2004
Revenues	
Program revenues	
Federal and state categorical grants	\$ 179,405
General revenues	
State aid (BFA) – unrestricted	\$1,028,719
Other	\$ 10,080
Total Revenues	\$1,218,204
Expenses	
Instruction	\$ 556,399
Support Services	\$ 787,255
Unallocated Interest	\$ 1,074
Unallocated Depreciation	\$ 2,156
Total Expenses	\$1,346,884
Change in net assets	(\$ 128,680)

Gateway's Governmental Fund Activities

The recent measured decline in *Gateway's* finances can be attributed to a weak economy, offset by innovative financial management.

- A. *Gateway* received a FY 2004 BFA in the amount of \$6867.58 per student, close to the minimum FY 2004 BFA (\$6700) allocated by the State of Michigan.
- B. As a result of state-wide cuts implemented in FY 2003 and continuing into FY 2004, *Gateway's* BFA was reduced from \$6941.00 to \$6867.58 per pupil.

- C. *Gateway's* Federal, State and Local categorical grant funding also was reduced in FY 2004.
- D. Despite stagnant and/or reduced funding, there were increases in the cost of living, inflation levels, the cost of employee benefit offerings, and other adverse economic factors.
- E. *Gateway's* student enrollment did not reach the levels projected at the time that the FY 2004 budget was adopted. While enrollment projections are not an exact science and are influenced by many factors outside of *Gateway's* control, careful analysis of multi-year enrollment trends, prior to adoption of *Gateway's* 2004-2005 budget in June of 2004, appears to have resulted in enrollment projections for the 2004-2005 fiscal year that will support budgeted expenditures. (*See* Section II.B. and fn. 2 and 3 above.)
- F. As a result of the adverse variances between the FY 2004 budgeting presumptions and actualities, *Gateway* projected in November of 2003 that, absent austerity measures, it could experience a substantial year-end deficit.
- G. Through sound fiscal management, the "expenditure" portion of this projected deficit was reduced to (\$57,950) by June 30, 2004. When coupled with a \$21,303 unfavorable variance between anticipated and received total revenues, *Gateway's* actual governmental fund balance at year-end was reduced by \$74,878 to \$138,878. Examples of *Gateway's* austerity measures include the following:
1. A few examples of line item adjustments implemented to reduce the anticipated deficit by \$39,271.00:
 - Reduce classroom budgets from \$1,500/classroom to \$500/classroom.
 - Replace only damaged textbooks; do not purchase new textbooks.
 - Reduce SSR library purchases.
 - Reduce Student Activities fund
 - Reduce science equipment fund.
 2. Other adjustments undertaken to reduce the anticipated deficit by an additional \$ 14,000 - \$14,500:
 - Underutilized Dual Enrollment Budget (projected \$4,000 savings)
 - BCN Plan E to BCBSM POS Plan (projected savings of \$1,000 and avoid 15-20% increase effective 12/01/03)
 - Increased Yearbook Ad Sales (projected savings of \$1,000 - \$1,500 now required to subsidize yearbook production)
 - Decreased and more efficient use of paper (projected savings of at least \$1,000; we now spend \$250/month) (Estimated aggregated savings of \$8,000).
 3. Considerable efforts were expended during FY 2004 toward reducing facilities-related expenses:
 - *Gateway* anticipated purchasing the facility at 311 State Street on terms that would have eliminated real property tax expenses (\$12,000 per year) and included an amortization/payment schedule to reduce monthly carrying costs by up to half of the budgeted lease costs (a possible \$50,000 savings between December 2003 and June 2004), which would have resulted in an estimated aggregate savings of \$62,000. Regrettably, for reasons beyond *Gateway's* control, the facility was sold to

another purchaser in December of 2003. *Gateway* has initiated communications with the new property owner about the possible purchase of the facility by *Gateway*.

- *Gateway* explored more cost-effective means to clean and maintain the facility and these means will be further explored and, if deemed appropriate, implemented in FY 2005.
4. Salaries for *Gateway* faculty and staff have been "frozen" for FY 2005.

VII. Capital Asset and Debt Administration

A. Capital Assets

Governmental funds report capital outlay as expenditures. In the government-wide statements, these costs are allocated over their estimated useful life as **depreciation**.

Gateway Policy Guide No. 6800 defines "**Capital Outlays**" for purposes of budgeting and charging expenditures as moveable property, of a relative permanent nature, having a normal life expectancy of more than three years, or having a purchase cost of Three Thousand (\$3,000.00) Dollars per item or more, and including items such as technology (including, without limitation, computers, printers, hardware, software, telephone systems, security cameras); furniture (including, without limitation, desks, tables, chairs, whiteboards); office equipment (including, without limitation, copy machines, fax machines); and items purchased on a leasing or lease-purchase basis; and defines "**Fixed Capital Outlays**" as real property (land, buildings, including without limitation, appurtenances, fixtures and fixed equipment, structures), including additions, replacements, major repairs, and renovations to real property which materially extend its useful life or materially improve or change its functional use.

Pursuant to this Capital Outlays Policy, *Gateway* had invested \$3,200 in capital assets by the end of FY 2004 to purchase and install an Ascom Tone System. This asset is allocated over its estimated useful life as depreciation. Total depreciation in FY 2004 for all capital assets totaled \$2,156.

B. Long-Term Debt

Gateway has no outstanding long-term debt at June 30, 2004.

C. Annual State Aid Line of Credit

Each year, so as to respond to potential cash flow shortfalls that might result from the absence of a State Aid Payment during the month of September, *Gateway* secures a State Aid Line of Credit. During FY 2004, *Gateway* secured such a Line of Credit through Fifth/Third Bank in the aggregate amount of \$100,000. *Gateway* drew \$50,000 on this line of credit in December of 2003 and made periodic curtailment payments in March, April, May and June of 2004 so that the line of credit was fully repaid as of June 30, 2004.

VIII. Factors Bearing on the Gateway's Future

At the time these financial statements were prepared and audited, *Gateway* was aware of two existing circumstances that could significantly affect *Gateway's* financial health in the future.

- A. The 2004-2005 basic foundation allowance has not been finalized by the State of Michigan. In FY 2004, the BFA represented approximately eighty-four (84%) Percent of *Gateway's* total revenues.
- B. *Gateway* may be able to purchase the facility located at 311 State Street in downtown Grand Rapids on terms that would reduce significantly its yearly facilities costs and result in a significant capital outlay.

IX. Contacting Gateway's Financial Management

This financial report is designed to provide our students, parents, and creditors with a general overview of *Gateway's* finances and to demonstrate *Gateway's* accountability for the money it receives. If you have any questions about this report, or need additional information, you may contact the Business Manager, Gateway Middle/High School, 311 State Street, SE, Grand Rapids, MI 49503.

INDEPENDENT AUDITORS' REPORT

Board of Directors Gateway Middle/High School

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gateway Middle/High Schools, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gateway Middle/High School as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the School District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages i through ix, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2004, on our consideration of Gateway Middle/High School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying information identified in the table of contents as other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

DE BOER, BAUMANN & COMPANY, P.L.C.

De Boer, Baumann & Company, P.L.C.

Certified Public Accountants
Holland, Michigan
August 3, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

**Board of Directors
Gateway Middle/High School**

We have audited the basic financial statements of Gateway Middle/High School as of June 30, 2004, and have issued our report thereon dated August 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Gateway Middle/High School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of Gateway Middle/High School in a separate letter dated August 3, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gateway Middle/High School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Gateway Middle/High School in a separate letter dated August 3, 2004.

This report is intended for the information of the Board of Directors, management, the cognizant audit agency and other federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

DE BOER, BAUMANN & COMPANY, P.L.C.

De Boer, Baumann & Company, P.L.C.

Certified Public Accountants
Holland, Michigan
August 3, 2004

GATEWAY MIDDLE/HIGH SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
ASSETS	
CURRENT ASSETS	
Cash	\$ 46,872
Due from Other Governmental Units	<u>203,785</u>
 TOTAL CURRENT ASSETS	 <u>250,657</u>
 NON CURRENT ASSETS	
Furniture and Equipment	12,590
Leasehold Improvements	<u>14,549</u>
Total	27,139
Less: Accumulated Depreciation	<u>(21,190)</u>
 TOTAL NONCURRENT ASSETS	 <u>5,949</u>
 TOTAL ASSETS	 <u>\$ 256,606</u>

See accompanying notes to financial statements.

**Governmental
Activities**

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 5,628
Due to Other Governmental Units	5,860
Accrued Liabilities	
Payroll	61,306
Payroll Tax Liabilities and Withholdings	14,022
Benefits Payable/Sick Leave	16,498
Capital Lease Payable	<u>610</u>

TOTAL CURRENT LIABILITIES	<u>103,924</u>
----------------------------------	----------------

NET ASSETS

Invested in Capital Assets, net of related debt	5,339
Unrestricted	<u>147,343</u>
TOTAL NET ASSETS	<u>152,682</u>

**TOTAL LIABILITIES AND
NET ASSETS**

\$ 256,606

GATEWAY MIDDLE/HIGH SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary Government:				
Governmental Activities:				
Instruction	\$ 556,399	\$ -	\$ 141,040	\$ (415,359)
Support Services	787,255	-	38,365	(748,890)
Interest*	1,074	-	-	(1,074)
Depreciation*	<u>2,156</u>	<u>-</u>	<u>-</u>	<u>(2,156)</u>
Total Primary Government	<u>\$ 1,346,884</u>	<u>\$ -</u>	<u>\$ 179,405</u>	<u>(1,167,479)</u>
General Revenues:				
State of Michigan Aid, unrestricted				1,028,719
Miscellaneous General Revenue				10,080
Unrestricted Investment Earnings				<u>-</u>
Subtotal, General Revenues				<u>1,038,799</u>
Change in Net Assets				(128,680)
Net Assets - beginning of year				<u>281,362</u>
Net Assets - end of year				<u>\$ 152,682</u>

* All interest and depreciation are unallocated.

See accompanying notes to financial statements.

GATEWAY MIDDLE/HIGH SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004

	General Fund
ASSETS	
Cash	\$ 46,872
Due from Other Governmental Units	<u>203,785</u>
TOTAL ASSETS	<u>\$ 250,657</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 5,628
Due to Other Governmental Units	5,860
Accrued Liabilities	
Payroll	61,306
Payroll Tax Liabilities and Withholdings	14,022
Benefits Payable/Sick Leave	16,498
Deferred Revenue	<u>8,465</u>
TOTAL LIABILITIES	<u>111,779</u>
FUND BALANCE	
Unreserved	<u>138,878</u>
TOTAL FUND BALANCE	<u>138,878</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 250,657</u>

See accompanying notes to financial statements.

GATEWAY MIDDLE HIGH SCHOOL
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2004

Total Governmental Fund Balance	\$ 138,878
--	-------------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and are not reported in the funds

Cost of Capital Assets	\$ 27,139	
Accumulated Depreciation	<u>(21,190)</u>	5,949

Deferred revenue recognized when earned.	8,465
--	-------

Liabilities are not due and payable in the current period and are not reported in the funds

Capital Lease Payable	<u>(610)</u>
-----------------------	--------------

Net Assets of Governmental Activities	<u>\$ 152,682</u>
--	--------------------------

See accompanying notes to financial statements.

GATEWAY MIDDLE/HIGH SCHOOL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General Fund
REVENUES	
Local Sources	\$ 10,080
Intermediate Sources	41,230
State Aid	1,077,596
Other State Sources	24
Federal Sources	<u>157,274</u>
Total Revenues	1,286,204
OTHER FINANCING SOURCES	<u>-</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>1,286,204</u>
EXPENDITURES	
Instruction	563,151
Supporting Services	<u>797,931</u>
TOTAL EXPENDITURES	1,361,082
OTHER FINANCING USES	<u>-</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>1,361,082</u>
NET CHANGE IN FUND BALANCES	(74,878)
FUND BALANCES - JULY 1,	<u>213,756</u>
FUND BALANCES - JUNE 30,	<u>\$ 138,878</u>

See accompanying notes to financial statements.

**GATEWAY MIDDLE/HIGH SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds	(74,878)
---	----------

Amounts reported for governmental activities in
the statement of activities are different because:

Governmental funds report capital outlay as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation.

Capital Outlay	3,270	
Depreciation Expense	<u>(2,156)</u>	1,114

Deferred revenue not available for revenue recognition.

Year Ended June 30, 2003	(76,465)	
Year Ended June 30, 2004	<u>8,465</u>	(68,000)

Repayments of capital lease is an expenditure in the governmental funds, but not in the statement of activities.	<u>13,084</u>
---	---------------

Change in Net Assets of Governmental Activities	<u>\$ (128,680)</u>
--	----------------------------

See accompanying notes to financial statements.

GATEWAY MIDDLE/HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Gateway Middle/High School, Grand Rapids, Michigan, is a not-for-profit Michigan Public School, which provides education to children in grades 7-12 from the surrounding community. Gateway Middle/High School operates under a charter approved by Grand Valley State University, which is responsible for oversight of the School's operations.

The financial statements of the Gateway Middle/High School have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (M D & A) section providing an analysis of the School's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the School's activities.

A change in the fund financial statement to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The School also implemented GASB #33, *Accounting and Financial Reporting for Non-exchange Transactions*. The pronouncement defines revenue recognition for non-exchange transactions at the fund and governmental levels.

A. Reporting Entity

The Gateway Middle/High School (School), a public school academy, is the lowest level of government, which has oversight responsibility and control over its activities related to public school education. The School received funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the School is not included in any other governmental "reporting entity" as defined in NCGA Statement 3 since school board members possess final decision-making authority, have the power to designate management, the ability to significantly influence operations and are primarily accountable for fiscal matters.

GATEWAY MIDDLE/HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements

Government Wide Statements

The School's basic financial statements include both government-wide (reporting the School as a whole) and fund financial statements (reporting the School's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities. According to GASB 34, fiduciary funds are excluded from the government-wide financial statements. The School currently does not have any fiduciary funds.

In the governmental-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts, invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The School first utilizes restricted resources to finance qualifying activities.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

The net costs (by function) are normally covered by general revenue (contributions, state sources, federal sources and interest income).

The School does not allocate indirect costs. In creating the government-wide financial statements the School has eliminated interfund transactions.

This governmental-wide focus is more on the sustainability of the School as an entity and the change in the School's net assets resulting from current year's activities.

Fund Financial Statements

The School uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into two categories: governmental and fiduciary.

GATEWAY MIDDLE/HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

Included in the financial statements are:

Governmental Funds:

Major Governmental Funds:

General Fund - Accounts for all revenues and expenditures except those required to be accounted for in other funds.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

All governmental funds financial statements are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both measurable and available.

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the School, available means expected to be received within sixty days of the fiscal year-end. Financial resources not recognized in the General Fund because they were not "available" at June 30, 2004 and 2003 amounted to \$ 8,465 and \$ 76,465, respectively.

Expenditures are generally recognized when the fund liability is incurred. The exception to this general rule is that principal and interest on general long-term debt is recognized when due. The School currently does not have any long-term debt.

GATEWAY MIDDLE/HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Unemployment Taxes

The School District has elected the reimbursement method for the payment of Michigan Unemployment Taxes. Any reimbursement that the School District may have to pay is undeterminable at the balance sheet date, and accordingly, no provision is included in the financial statements. It is not anticipated that any payment would have a material effect upon the financial statements.

E. Accumulated Sick Leave and Vacation Liability

Provision has been included in the financial statements for accumulated sick leave. Employees have no vested right to unused sick leave. However, employees returning for the next school year are paid \$ 50 per full day of sick leave not used in the prior school year. As of June 30, 2004, unpaid sick pay obligations are \$ 3,350

No vacation time is allowed to accumulate, and accordingly, no provision is included in the financial statements.

F. Capital Assets

The School has adopted a capitalization policy that considers individual items with a value greater than \$ 3,000 as capital assets.

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Leasehold Improvements	5-7 years
Furniture and Equipment	3 years

G. Legal and Budgetary Requirements

The Michigan Uniform Budgeting and Accounting Act requires the establishment of the General Fund, with an annual budget adopted by the Board at the beginning of the fiscal year.

GATEWAY MIDDLE/HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Legal and Budgetary Requirements (Continued)

State law requires operation under a balanced budget and budgetary control to the functional, activity or line item level as defined in the Uniform Budgeting and Accounting Act.

The budget figures in the accompanying financial statements have been reported on an activity basis and reflect approved amendments made during the year.

The budget is prepared and controlled by the Superintendent and is approved by the Board of Directors.

The School uses the following procedures in establishing the budgetary data reflected in the financial statements:

- a. Starting in the spring, administrative personnel and department heads work with the Superintendent of the School to establish a proposed operating budget for the fiscal year commencing the following July 1.
- b. Prior to June 30, a preliminary appropriations budget is adopted by the Board of Directors for the subsequent fiscal year to comply with State of Michigan regulations.
- c. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or as amended by the School on various dates. Individual amendments were not material in relation to the original appropriations, which were amended.

Once a budget is approved, it can be amended at the Function and Fund level only by approval of a majority of the members of the Board of Directors. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

The final amended budget was approved by the Board of Directors on June 29, 2004.

H. Foundation Revenue

The State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to schools based on information supplied by the schools. For the year ended June 30, 2004, the

GATEWAY MIDDLE/HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Foundation Revenue (Continued)

foundation allowance was based on the average of pupil membership counts taken in February and September, 2003.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The public school academy is not eligible to receive any portion of local non-homestead property taxes. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments.

I. The Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

J. Reclassifications

Reclassifications of certain expenditures in Supporting Services - Business Support and Operation/Maintenance of Plant were made within the General Fund Statement of Operating Expenditures for the year ended June 30, 2003.

NOTE 2: CASH

Balances at June 30, 2004 relating to cash are detailed on the combined balance sheet as follows:

	Totals Per Financial Statements (Memorandum Only)	Bank Balance
Cash	\$ 46,872	\$ 56,277

Cash consists of a bank checking account and is fully insured by FDIC.

NOTE 3: MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPERS)

A. Plan Description and Provisions

All of the School's full-time general employees participate in the MPERS, a multiple-employer, cost-sharing pension plan. The School District has no fiduciary responsibility for the plan.

GATEWAY MIDDLE/HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 3: MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS)
(CONTINUED)

A. Plan Description and Provisions (Continued)

Employees attaining the age of 55 and completing 30 or more continuous years of service, or the age of 60 with 10 or more years of service, are entitled to a monthly benefit of 1-1/2% of their average monthly earnings as defined in the plan for each year of continuous service. The plan permits early retirement at the age of 55 and the completion of 15 years of continuous service. Active employees who become disabled receive benefits in accordance with the age and service allowance, reduced by any public disability benefits to which the member is entitled. Disability benefits are paid until the earlier of death, recovery from disability or attainment of normal retirement age. If an active employee dies, the designated beneficiary receives payments.

B. Description of Funding Policy

The School District is required by the Michigan Public School Employees' Retirement System to contribute 12.99% of covered employees' payroll from July 1, 2003 to June 30, 2004. The contribution requirement and the actual contributions to the retirement plan were \$ 88,883 for the year ended June 30, 2004.

NOTE 4: DUE FROM OTHER GOVERNMENTAL UNITS

This account consists of amounts due from the following governmental units:

General Fund

State of Michigan	\$ 195,320
Kent County Intermediate School District	5,485
Grand Valley State University	<u>2,980</u>
Total	<u>\$ 203,785</u>

NOTE 5: LINE OF CREDIT

The School receives operating cash flow by utilizing a \$ 100,000 revolving line of credit with Fifth Third Bank, that is authorized by an Order of Approval by the Department of Treasury of the State of Michigan pursuant to Section 1225(11) of the Michigan Revised School Code. The line of credit is secured by a pledge of 30 percent of the state school aid funds that are apportioned to the School for its current fiscal year. The line of credit bears interest at 1.75% below the Index Rate. During the year ended June 30, 2004, \$ 50,000 was borrowed and \$ 50,000 was repaid. Interest expense for the year ended June 30, 2004 was \$ 474. There was no outstanding balance at July 1, 2003 or June 30, 2004.

GATEWAY MIDDLE/HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 6: CAPITAL LEASE PAYABLE

Capital lease payable at June 30, 2004 consist of a capital lease for a copier payable to GE Capital. The lease requires monthly payments of \$ 308.04 including taxes and interest at 8.48%.

\$ 610

Future minimum lease payments under capital leases are as follows:

<u>Year Ended June 30,</u>	
2005	\$ 610
2006	-
2007	-
2008	-
2009	-
Later	-
Net Minimum Lease Payments	<u>610</u>
Less: Amount Representing Interest and Taxes	<u>6</u>
Present Value of Net Minimum Lease Payments	<u>\$ 604</u>

The following represents a summary of changes in long-term debt for the period from July 1, 2003 to June 30, 2004.

	<u>Balance July 1, 2003</u>	<u>Lease Acquisition</u>	<u>Lease Payment</u>	<u>Balance June 30, 2004</u>
Furniture Lease	\$ 7,027	\$ -	\$ 7,027	\$ -
Copier Lease	4,092	-	3,482	610
Furniture Lease	2,575	-	2,575	-
Totals	<u>\$ 13,694</u>	<u>\$ -</u>	<u>\$ 13,084</u>	<u>\$ 610</u>

Total interest expense for the year ended June 30, 2004, is \$ 600.

NOTE 7: RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School carries commercial insurance for all the above mentioned types of risks of loss including general, property damage, employee health and accident insurance, and workers' compensation. Settled claims have not exceeded the commercial coverage in any of the three previous years.

GATEWAY MIDDLE/HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 8: OPERATING LEASES

The School entered into an operating lease for building space through June 30, 2008. Rental expense is currently \$ 14,844 per month. As of July 1, 2005, the rent will be adjusted to \$ 16,406 for the remaining three years of the contract. The School is also responsible for paying all operating expenses related to maintaining the leased building. Rental expense, including pass through expenses from landlord, was \$ 200,022 and \$ 201,474 for the years ended June 30, 2004 and June 30, 2003, respectively.

Future minimum rental payments required under the operating lease in excess of one year as of June 30, 2004 are as follows:

<u>Year Ended June 30,</u>	
2005	\$ 178,125
2006	196,875
2007	196,875
2008	196,875
2009	-
Later	-
Total	<u><u>\$ 768,750</u></u>

NOTE 9: CHARTER AGENCY OVERSIGHT FEES

Pursuant to the charter contract between Grand Valley State University ("Authorizer") and the School, the School pays the Authorizer an administrative oversight fee equal to approximately 3% of the state school aid received by the School.

NOTE 10: CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Disposals</u> <u>and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2004</u>
Assets				
Furniture and Equipment	\$ 12,590	\$ -	\$ -	\$ 12,590
Leasehold Improvements	11,279	3,270	-	14,549
Subtotal	<u>23,869</u>	<u>3,270</u>	<u>-</u>	<u>27,139</u>
Accumulated Depreciation				
Furniture and Equipment	12,590	-	-	12,590
Leasehold Improvements	6,444	2,156	-	8,600
Subtotal	<u>19,034</u>	<u>2,156</u>	<u>-</u>	<u>21,190</u>
Net Capital Assets	<u>\$ 4,835</u>	<u>\$ 1,114</u>	<u>\$ -</u>	<u>\$ 5,949</u>

The total asset amount of furniture and equipment was recorded under capital leases.

GATEWAY MIDDLE/HIGH SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 10: CAPITAL ASSETS (CONTINUED)

Depreciation for fiscal year ended June 30, 2004 amounted to \$ 2,156.

The School determined that it was impractical to allocate depreciation to the various governmental activities as the assets as the assets serve multiple functions.

NOTE 11: SUBSEQUENT EVENTS

The School has committed to expend \$ 9,000 during fiscal year 2004-2005 for new accounting and reporting software necessary to accommodate the new accounting coding structure required to be used by public schools.

REQUIRED SUPPLEMENTAL INFORMATION

**GATEWAY MIDDLE/HIGH SCHOOL
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES				
Local Sources	\$ 1,000	\$ 10,775	\$ 10,080	\$ (695)
Intermediate Sources	44,869	53,693	41,230	(12,463)
State Sources	1,362,290	1,085,773	1,077,620	(8,153)
Federal Sources	88,416	157,266	157,274	8
Total Revenues	<u>1,496,575</u>	<u>1,307,507</u>	<u>1,286,204</u>	<u>(21,303)</u>
OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>1,496,575</u>	<u>1,307,507</u>	<u>1,286,204</u>	<u>(21,303)</u>
EXPENDITURES				
Instruction				
Middle School	128,064	116,453	123,848	(7,395)
High School	417,111	341,496	371,489	(29,993)
Special Education	54,988	71,297	67,814	3,483
Supporting Services				
Pupil Support Services	150,326	125,055	130,591	(5,536)
Instructional Staff	-	-	-	-
General Administration	244,407	199,706	202,817	(3,111)
School Administration	164,280	148,070	158,122	(10,052)
Fiscal Business	5,796	6,550	5,550	1,000
Operations and Maintenance	300,478	290,091	297,414	(7,323)
Transportation	4,549	4,414	3,437	977
Total Expenditures	<u>1,469,999</u>	<u>1,303,132</u>	<u>1,361,082</u>	<u>(57,950)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	<u>26,576</u>	<u>4,375</u>	<u>(74,878)</u>	<u>(79,253)</u>
FUND BALANCE - JULY 1,	<u>213,756</u>	<u>213,756</u>	<u>213,756</u>	<u>-</u>
FUND BALANCE - JUNE 30,	<u>\$ 240,332</u>	<u>\$ 218,131</u>	<u>\$ 138,878</u>	<u>\$ (79,253)</u>

See accompanying notes to financial statements.

OTHER SUPPLEMENTAL INFORMATION

GATEWAY MIDDLE/HIGH SCHOOL
GENERAL FUND
COMPARATIVE BALANCE SHEET
June 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash	\$ 46,872	\$ 97,855
Due from Other Governmental Units	203,785	293,464
Prepaid Expenses	<u>-</u>	<u>127</u>
TOTAL ASSETS	<u>\$ 250,657</u>	<u>\$ 391,446</u>
 LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ 5,628	\$ 8,088
Due to Other Governmental Units	5,860	6,212
Accrued Liabilities		
Payroll	61,306	56,401
Payroll Withholding	14,022	14,149
Employee Benefits	16,498	16,375
Deferred Revenue	<u>8,465</u>	<u>76,465</u>
TOTAL LIABILITIES	<u>111,779</u>	<u>177,690</u>
 FUND EQUITY		
Fund Balances		
Unreserved	<u>138,878</u>	<u>213,756</u>
TOTAL FUND EQUITY	<u>138,878</u>	<u>213,756</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 250,657</u>	 <u>\$ 391,446</u>

See accompanying notes to financial statements.

GATEWAY MIDDLE/HIGH SCHOOL
GENERAL FUND
COMPARATIVE STATEMENT OF REVENUES
JUNE 30, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
REVENUES FROM LOCAL SOURCES		
Miscellaneous	\$ 10,080	\$ 3,124
 REVENUES FROM INTERMEDIATE SOURCES		
GVSU Grant	4,470	6,640
Special Education - Act 18	35,395	35,250
Other	1,365	-
Total Intermediate Sources	<u>41,230</u>	<u>41,890</u>
 REVENUES FROM STATE SOURCES		
State Aid	1,077,596	1,196,528
Gifted and Talented	24	348
Total State Sources	<u>1,077,620</u>	<u>1,196,876</u>
 REVENUES FROM FEDERAL SOURCES		
Title I A - Improving Basic Programs	114,830	42,291
Title II A - Teacher Training	26,789	9,409
Title II - Eisenhower	-	626
Title VI - IDEA	9,045	16,152
Title VII - Safe and Drug Free Schools	768	711
Title V - Innovative Programs	2,784	1,334
Technology Literacy Challenge Grant	3,058	-
Total Federal Sources	<u>157,274</u>	<u>70,523</u>
 Total Revenues	<u>\$ 1,286,204</u>	<u>\$ 1,312,413</u>

See accompanying notes to financial statements.

GATEWAY MIDDLE/HIGH SCHOOL GENERAL FUND

STATEMENT OF OPERATING EXPENDITURES

YEAR ENDED JUNE 30, 2004

WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2003

	<u>Salaries</u>	<u>Employee Benefits</u>	<u>Purchased Services</u>	<u>Supplies & Materials</u>	<u>Other Expenses</u>	<u>Capital Outlay</u>	<u>Totals</u>
							<u>2004</u> <u>2003</u>
INSTRUCTION							
Middle School	\$ 92,484	\$ 22,864	\$ 3,923	\$ 4,577	\$ -	\$ -	\$ 123,848 \$ 136,357
High School	254,802	89,400	15,277	9,877	-	2,133	371,489 337,526
Special Education	43,858	12,622	10,488	846	-	-	67,814 46,386
Total Instruction	<u>391,144</u>	<u>124,886</u>	<u>29,688</u>	<u>15,300</u>	<u>-</u>	<u>2,133</u>	<u>563,151</u> <u>520,269</u>
SUPPORTING SERVICES							
Pupil Support Services	88,118	37,136	1,357	3,980	-	-	130,591 134,103
General Administration	113,177	42,719	11,344	1,712	33,865	-	202,817 44,437
School Administration	91,545	34,021	26,912	1,712	1,117	2,815	158,122 333,084
Fiscal Business	-	-	5,550	-	-	-	5,550 3,500
Operation/Maintenance of Plant	1,687	443	255,581	30,973	-	8,730	297,414 312,455
Transportation	-	-	3,437	-	-	-	3,437 4,278
Total Supporting Services	<u>294,527</u>	<u>114,319</u>	<u>304,181</u>	<u>38,377</u>	<u>34,982</u>	<u>11,545</u>	<u>797,931</u> <u>831,857</u>
Total Expenditures	<u>\$ 685,671</u>	<u>\$ 239,205</u>	<u>\$ 333,869</u>	<u>\$ 53,677</u>	<u>\$ 34,982</u>	<u>\$ 13,678</u>	<u>\$ 1,361,082</u> <u>\$ 1,352,126</u>